

**State Universities Retirement System
of the State of Illinois
(A Component Unit of the State of Illinois)**
Compliance Examination
For the Year Ended June 30, 2021
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State Universities Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2021**

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of the State of Illinois
Compliance Examination
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State Universities Retirement System of the State of Illinois

For the Year Ended June 30, 2021

System Officials

Acting Executive Director (2/20/21 – 12/8/21)	Ms. Suzanne Mayer
Executive Director (12/9/21 – Present)	Ms. Suzanne Mayer
Executive Director (7/1/20 – 2/19/21)	Mr. Martin Noven
Chief Financial Officer	Ms. Tara Myers
Chief Investment Officer	Mr. Doug Wesley
General Counsel	Ms. Bianca Green
Director of Internal Audit	Ms. Jacqueline Hohn

Board Officers

Chairperson	Mr. John Atkinson
Vice Chairperson	Mr. Colin Van Meter
Treasurer	Mr. John Lyons

Board Members

Board of Trustees	Mr. Andriy Bodnaruk
	Mr. Richard Figueroa
	Ms. Jamie-Clare Flaherty
	Mr. J. Fred Giertz
	Mr. Scott Hendrie
	Mr. Steven Rock
	Mr. Mitchell Vogel
	Mr. Scott Weisbenner

Office Location

1901 Fox Drive
Champaign, Illinois 61820



MANAGEMENT ASSERTION LETTER

February 17, 2022

BKD, LLP
Certified Public Accountant
225 North Water Street, Suite 400
Decatur, IL 62523

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Universities Retirement System. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the State Universities Retirement System's compliance with the following specified requirements during the year ended June 30, 2021. Based on this evaluation, we assert that during the year ended June 30, 2021 the State Universities Retirement System has materially complied with the specified requirements listed below.

- A. The State Universities Retirement System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State Universities Retirement System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The State Universities Retirement System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State Universities Retirement System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State Universities Retirement System on behalf of the State or held in trust by the State Universities Retirement System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

State Universities Retirement System

SIGNED ORIGINAL ON FILE

Suzanne Mayer, Executive Director

SIGNED ORIGINAL ON FILE

Tara Myers, Chief Financial Officer

SIGNED ORIGINAL ON FILE

Bianca Green, General Counsel

Compliance Report

**State Universities Retirement System
of the State of Illinois
State Compliance Examination
For the Year Ended June 30, 2021**

State Compliance Report

Summary

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accounts; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*.

Accountant's Reports

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	1
Repeated findings	—	—
Prior recommendations implemented or not repeated	1	—

Schedule of Findings

Item No.	Page	Last/First Reported	Description	Finding Type
Findings (State Compliance)				
2021-001	8	2021	Lack of Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2021-002	12	2021	Lack of Formal Controls over the Review of Internal Controls for Service Providers	Significant Deficiency and Noncompliance

Prior Findings Not Repeated

A	2020/2020	Noncompliance with the Illinois Pension Code
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**State Universities Retirement System
of the State of Illinois
State Compliance Examination
For the Year Ended June 30, 2021**

Exit Conference

The System waived a formal exit conference in a correspondence from Jackie Hohn, Chief Internal Auditor, on January 26, 2022. The responses to the recommendations were provided by Jackie Hohn, Chief Internal Auditor, in correspondence dated February 7, 2022.

Independent Accountant's Report on State Compliance and on Internal Control over Compliance

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
State Universities Retirement System of Illinois
Champaign, Illinois

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State of Illinois, State Universities Retirement System (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the year ended June 30, 2021. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

In our opinion, the System complied with the specified requirements during the year ended June 30, 2021, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2021-001 and 2021-002.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the System's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The System's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
February 17, 2022

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-001. Finding – Lack of Cybersecurity Programs and Practices

The State Universities Retirement System (System) had not implemented formal internal controls related to cybersecurity programs, practices and control of confidential information.

It is the mission of the System to “secure and deliver retirement benefits promised” to its members. As a result, the System maintains large volumes of confidential information including retiree names, addresses, health information, Social Security numbers, bank account numbers, etc.

The Illinois State Auditing Act (30 ILCS 5/3-24) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During our examination of the System’s cybersecurity program, practices, and control of confidential information, we noted the System had not:

- Developed a configuration management policy, system development standards, and onboarding procedures for contractors.
- Developed policies and procedures for reviewing and monitoring security implementation and violations.
- Periodically reviewed its policies and procedures to ensure they depicted the current security environment. The last review was conducted in 2017.
- Developed a project management framework to ensure new applications were adequately developed and implemented in accordance with management’s expectations.
- Developed a risk management methodology, conducted a comprehensive risk assessment, or implemented risk reducing internal controls.
- Required employees to acknowledge receipt of changes to the System’s policies.
- Developed a data classification methodology and classified its data to identify and ensure adequate protection of information.
- Required contractors to complete cybersecurity training.
- Conducted a review of individuals with physical access to the System’s offices.
- Implemented tools to actively monitor security events over all their applications.

Although the System had developed a change management policy, it did not address control over emergency changes, approval to move changes to the production environment, and proper segregation of duties.

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-001. Finding – Lack of Cybersecurity Programs and Practices (Continued)

The *Framework for Improving Critical Infrastructure Cybersecurity and the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data, and continued business mission.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

System management indicated the lack of resources and competing priorities resulted in the identified weaknesses.

The lack of formal cybersecurity programs and practices could result in unidentified risk and vulnerabilities, which could ultimately lead to the System's confidential and personal information being susceptible to cyber-attacks and unauthorized disclosure. (Finding Code No. 2021-001)

Recommendation

We recommend the System:

- Develop policies regarding configuration management, system development, and onboarding for contractors.
- Develop policies and procedures for reviewing and monitoring security implementation and violations.
- At least annually review its policies and procedures to ensure they depict the current security environment.
- Develop a project management framework to ensure new applications are adequately developed and implemented.
- Develop a risk management methodology, conduct a comprehensive risk assessment, and implement risk reducing internal controls.
- Require employees to acknowledge receipt of changes to the System's policies.
- Develop a data classification methodology and classify its data to identify and ensure adequate protection of information.
- Require contractors to complete cybersecurity training.
- Conduct a review of individuals with physical access to the System's offices.

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-001. Finding – Lack of Cybersecurity Programs and Practices (Continued)

- Implement tools to actively monitor security events over all their applications.

Additionally, we recommend the System update its change management policy to include control related to:

- Emergency changes,
- Approvals to move changes to the production environment, and
- Proper segregation of duties.

System Response

The State Universities Retirement System (SURS) disagrees with the statement “The State Universities Retirement System had not implemented formal internal controls related to cybersecurity programs, practices and control of confidential information.” SURS maintains a highly secure computer environment that safeguards confidential and personal information from attacks and unauthorized disclosure, but it recognizes that formal policies and procedures need to be documented to show how this is being done. SURS hired an Information Security Manager at the beginning of fiscal year 2022, to assist with formalizing and developing new policies, procedures, and strengthening controls around information security.

In addition to the new position, SURS began a formal Policy Program Management Project to organize current policies and procedures and to develop a standardized process for drafting, reviewing, and approving current and new policies. Although this project is still on-going, once completed it will include a full repository of all SURS policies (including a Policy on Policies) and a process to ensure that the review and approval of each new policy and subsequent policy modification is documented. SURS is also developing a formal process to be used when employees are required to sign an acknowledgement that they have reviewed and are aware of the policies that are applicable to them.

The Configuration and Change Management policies have been updated to reflect the recommendations above. The System Development Lifecycle policy documentation will be reviewed and updated. Procedures already exist in SURS service desk for onboarding contractors. SURS will review these procedures and update if necessary.

SURS already has solutions in place for monitoring security events and automated response solutions and already subscribes to third party solutions to assist with 24 x 7 monitoring and remediation of critical events. SURS recognizes the importance of centralizing events from all applications and systems into a central solution to provide visibility and response automation and will investigate commercial solutions available. Once these tools have been identified and implemented, new policies and procedures will be developed to reflect the current policies and procedures in place.

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-001. Finding – Lack of Cybersecurity Programs and Practices (Continued)

The Project Management Office is new to SURS and is still being developed. SURS concurs with the recommendation that there is a need to implement a project management framework to ensure new applications are adequately developed and implemented.

SURS performs an annual formal risk assessment of its information and technology systems to identify current and future risk, and to identify and implement controls that mitigate that risk. With the onboarding of the Security Manager, SURS will address the need to formalize the policies and procedures in the area of Risk Management that are already in place.

During fiscal year 2020, SURS contracted with a third-party vendor to assist with a data classification methodology which has been implemented. A policy was also developed through this process, however, has not yet been formally approved and adopted. This policy will be formally approved as part of the Policy Program Management Project.

SURS currently offers cybersecurity training to all contract workers and to all vendors who have access to our network as part of the Pension Administration System Project, however, SURS does not currently mandate that the contract workers complete cybersecurity training. SURS will work with contract workers, contractors and vendors that have access to the SURS system to ensure that they have completed cyber security awareness training on at least an annual basis. Regarding new contracts moving forward, it should be noted that absent a specific law that requires these contractors and vendors to complete cyber security awareness training on an annual basis as a condition precedent of doing business with SURS, we may not be able to obtain these recommended contract terms.

SURS conducts periodic reviews of building access to sensitive areas but does not currently perform an annual review of all facility access. SURS will create procedures to perform this review.

Accountant's Comment

Cybersecurity programs and practices entails more than ensuring the entities environment is secure. A Cybersecurity program also requires formally documented and adequately detailed policies, procedures, training and monitoring for security events. As documented above, the System had not formally developed or implemented such controls.

Further, a Cybersecurity program necessitates the completion of a comprehensive risk assessment which includes identifying the applications and confidential data in order to map the controls to safeguard the integrity, security and availability of the applications and data. The System had not conducted such an assessment.

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-002. Finding – Lack of Formal Controls over the Review of Internal Controls for Service Providers

The State Universities Retirement System (System) had not implemented formal internal controls over its service providers.

The System utilized service providers for hosting services and software as a service. During our testing, we noted the System had obtained System and Organization Control (SOC) reports; however, they had not conducted an analysis of the reports and complementary user entity controls (CUECs).

In addition, we noted the service provider contracts did not contain a requirement for an independent review to be completed.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews. Further, entities should review the reports and CUECs to ensure proper controls are in place.

System management indicated they were unaware of the need to review SOC reports.

Without having reviewed a SOC report or another form of independent internal controls review, the System does not have assurance the service providers' internal controls are adequate. (Finding Code No. 2021-002)

Recommendation

We recommend the System strengthen its controls by reviewing the SOC reports and analyzing the impact of any noted deviations to the System's internal controls. In addition, we recommend the System:

- Monitor and document the operation of the Complementary User Entity Controls related to the System's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.

State Universities Retirement System of the State of Illinois

Schedule of Findings Current Findings – State Compliance

June 30, 2021

2021-002. Finding – Lack of Formal Controls over the Review of Internal Controls for Service Providers (Continued)

- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impact to the System, and any compensating controls.
- Ensure contracts contain requirements for an independent review.

System Response

SURS does not believe that all vendor contracts should mandate language that requires SURS to obtain a SOC report or perform an independent review of the vendors' internal controls. This recommended language should be limited to service providers that have hosting services or provide software as a service. SURS currently aligns the cybersecurity program with the Department of Labor cybersecurity program best practices for employee benefits security administration. SURS will review our standard contract terms and the RFP process we currently use to determine the type of vendors that should be classified as service organizations. Moving forward, SURS will determine whether it needs to demand a SOC report (or equivalent) or independent review of a vendor's internal security controls. SURS will also work with the Office of the Auditor General to determine what report or other information would satisfy the independent review recommendation above, if necessary, of the security controls of these vendors. Regarding new contracts moving forward, it should be noted that absent a specific law that requires these vendors to complete an independent review of their internal security controls as a condition precedent of doing business with SURS, we may not be able to obtain these recommended contract terms.

SURS currently obtains copies of the SOC reports from service providers that have hosting services or provide software as a service. SURS will work to develop and implement a program that formally documents SURS' reviews of the SOC reports received from those vendors. This documentation will include the results of our review of the complementary user controls at SURS, a review and evaluation of the service provider's use of subservice organizations, and our review of any exceptions of tested controls identified in the report. Our process and findings will be documented to evidence this review.

State Universities Retirement System of the State of Illinois

Schedule of Finding Prior Immaterial Finding Not Repeated

June 30, 2021

A. Finding – Noncompliance with the Illinois Pension Code

During the prior examination, the State Universities Retirement System had not adopted administrative rules regarding the determination of whether any person is an employee under § 15-107 of the Illinois Pension Code (Code) (40 ILCS 5/15-107).

During the current examination, these proposed rules were written and first published at 45 Illinois Register 8638 in July 2021. The proposed rules are now moving through the rest of the rulemaking process under the Joint Committee on Administrative Rules and expect an effective date of January 1, 2023. (Finding Code No. 2020-001)

**Disclosures Accompanying a State
Compliance Examination Report**

State Universities Retirement System of the State of Illinois

Disclosures Accompanying a State Compliance Examination Report For the Year Ended June 30, 2021

Disclosures Report

Summary

A reading of the accompanying report components of the State Universities Retirement System was performed by BKD, LLP.

Accountant's Reports

The accountants did not conclude an omission or uncorrected material misstatement of the other information exists in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report.

Exit Conference

The System waived a formal exit conference in a correspondence from Jackie Hohn, Chief Internal Auditor, on January 26, 2022. The responses to the recommendations were provided by Jackie Hohn, Chief Internal Auditor, in correspondence dated February 7, 2022.

**Independent Accountant's Report
on Disclosures Accompanying a State
Compliance Examination Report**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
State Universities Retirement System of Illinois
Champaign, Illinois

Disclosures Accompanying a State Compliance Examination Report

Management of the State Universities Retirement System (System) is responsible for the *Disclosures Accompanying a State Compliance Examination Report* (other information), which consists of the Fiscal Schedules and Analysis and Analysis of Operations report components as listed in the Table of Contents. The other information comprises disclosures which must be presented by management in accordance with *Report Components* memorandum published by the Auditor General of the State of Illinois, but does not include our *Independent Accountant's Report on State Compliance and on Internal Control over Compliance* found in the separate *State Compliance Examination Report* included within this document. Our opinion on the System's State compliance and internal control over compliance does not cover this other information, and we do not express an opinion or any form of assurance thereon.

In connection with our examination of the System, our responsibility is to read the other information and consider whether:

1. a material inconsistency exists between the other information and our knowledge and facts of the System we obtained as part of the System's State compliance examination;
2. the other information appears to have been omitted; or,
3. the other information appears to be materially misstated.

If, based on the work performed, we concluded an omission or uncorrected material misstatement of the other information exists, we are required to describe it in this report.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
February 17, 2022

Fiscal Schedules and Analysis

**State Universities Retirement System
of the State of Illinois**
Summary Schedule of Appropriations and Expenditures
Expenditure Authority for Fiscal Year 2021
For the Years Ended June 30, 2021 and 2020

	Appropriations 2021	Expenditures 2021	Appropriations 2020	Expenditures 2020
Appropriations made to the State Universities Retirement System from the State General Revenue Fund (0001):				
40 ILCS 15/1.1(b) continuing appropriation Public Act # 101-0637 Public Act # 101-0007	\$1,780,767,000	\$1,780,767,000	\$1,639,692,000	\$1,639,692,000
40 ILCS 15/1.4 continuing appropriation Public Act # 101-0637 Public Act # 100-0007	4,622,773	4,622,773 *	4,431,113	4,431,113 *
State Universities Retirement System from the State Pension Fund (0054):				
Public Act # 101-0637 Public Act # 100-0007	<u>215,000,000</u>	<u>215,000,000</u>	<u>215,000,000</u>	<u>215,000,000</u>
Total appropriations	<u>\$2,000,389,773</u>	<u>\$2,000,389,773</u>	<u>\$1,859,123,113</u>	<u>\$1,859,123,113</u>

* Transferred to the Community College Health Insurance Security Fund as the State's contribution for community college benefit recipient's health benefits.

Note: PA 88-0593 is the legislation that gave SURS continuing appropriation authority. Vouchers are submitted under this statute when the State does not appropriate an amount equal to the certified amount. This allows SURS to bill the State for the payments required.

**State Universities Retirement System
of the State of Illinois**
**Comparative Schedule of Revenues and Expenses
For the Years Ended June 30, 2021 and 2020**

	2021	2020	2021 from 2020	
			Amount	Percent
Revenues				
Contributions:				
Members	\$ 387,003,295	\$ 375,425,229	\$ 11,578,066	3.1%
Employers	67,289,696	62,347,188	4,942,508	7.9%
Non-employer contributing entity	<u>1,995,767,000</u>	<u>1,854,692,000</u>	<u>141,075,000</u>	<u>7.6%</u>
	<u>2,450,059,991</u>	<u>2,292,464,417</u>	<u>157,595,574</u>	<u>6.9%</u>
Investment income:				
Interest	199,329,911	191,342,519	7,987,392	4.2%
Dividends	187,253,566	200,038,867	(12,785,301)	(6.4)%
Net appreciation in fair value of investments	4,487,065,768	216,995,420	4,270,070,348	1967.8%
Securities lending	<u>6,340,430</u>	<u>5,597,401</u>	<u>743,029</u>	<u>13.3%</u>
	<u>4,879,989,675</u>	<u>613,974,207</u>	<u>4,266,015,468</u>	<u>694.8%</u>
Less investment expense				
Asset management expense	86,162,787	67,967,190	18,195,597	26.8%
Securities lending expense	<u>570,639</u>	<u>504,180</u>	<u>66,459</u>	<u>13.2%</u>
Net investment income	<u>4,793,256,249</u>	<u>545,502,837</u>	<u>4,247,753,412</u>	<u>778.7%</u>
Total	<u>7,243,316,240</u>	<u>2,837,967,254</u>	<u>4,405,348,986</u>	<u>155.2%</u>
Expenses				
Benefits	2,782,740,275	2,677,989,974	104,750,301	3.9%
Refunds of contributions	79,128,037	69,001,514	10,126,523	14.7%
Contributions sent to third-party administrator	178,536,338	170,278,264	8,258,074	4.8%
Administrative expenses	<u>21,966,859</u>	<u>19,234,313</u>	<u>2,732,546</u>	<u>14.2%</u>
Total	<u>3,062,371,509</u>	<u>2,936,504,065</u>	<u>125,867,444</u>	<u>4.3%</u>
Excess (Deficiency) of Revenues over (under) Expenses	<u>\$ 4,180,944,731</u>	<u>\$ (98,536,811)</u>	<u>\$ 4,279,481,542</u>	<u>4343.0%</u>

Note: 2020 information was restated for the adoption of GASB Statement No. 84.

State Universities Retirement System of the State of Illinois

Analysis of Revenues and Expenses For the Years Ended June 30, 2021 and 2020

The System Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position have been analyzed for fluctuations greater than \$1 million and 20 percent from the previous year, as follows:

Net appreciation in fair value of investments

Net appreciation of the System's investments increased by \$4.3 billion or 1,967.8 percent. The System's gains on its equity investments (\$3.1 billion) and alternative investments (\$1.1 billion) were the largest contributors to this year-over-year change. The System's year-over-year change is reflected in the overall increase in investment return from 2.6 percent in fiscal year 2020 to 23.8 percent in fiscal year 2021.

Asset management expense

Asset management expense increased by \$18.2 million or 26.8 percent. This increase is due to an increase in the percentage of assets under management.

State Universities Retirement System of the State of Illinois

Schedule of Administrative Expenses For the Year Ended June 30, 2021

	2021	2020	Variance	
			Amount	Percent
Personnel Services:				
Salary and wages	\$ 11,132,563	\$ 9,859,170	\$ 1,273,393	12.9%
Retirement contributions	1,264,008	1,178,301	85,707	7.3%
Insurance and payroll taxes	<u>3,591,468</u>	<u>2,664,195</u>	<u>927,273</u>	<u>34.8%</u>
	<u>15,988,039</u>	<u>13,701,666</u>	<u>2,286,373</u>	<u>16.7%</u>
Professional Services:				
Computer services	2,051,270	1,826,155	225,115	12.3%
Medical consultation	204	4,126	(3,922)	(95.1)%
Technical and actuarial	1,098,138	1,055,448	42,690	4.0%
Legal services	<u>581,363</u>	<u>288,490</u>	<u>292,873</u>	<u>101.5%</u>
	<u>3,730,975</u>	<u>3,174,219</u>	<u>556,756</u>	<u>17.5%</u>
Communications:				
Postage	137,232	159,132	(21,900)	(13.8)%
Printing and copying	29,555	54,083	(24,528)	(45.4)%
Telephone	<u>290,801</u>	<u>194,016</u>	<u>96,785</u>	<u>49.9%</u>
	<u>457,588</u>	<u>407,231</u>	<u>50,357</u>	<u>12.4%</u>
Other Services:				
Equipment repairs, rental and maintenance	96,142	88,380	7,762	8.8%
Building operations, maintenance and office rental	159,001	265,350	(106,349)	(40.1)%
Surety bonds and insurance	491,469	470,152	21,317	4.5%
Memberships and subscriptions	52,727	86,496	(33,769)	(39.0)%
Transportation, travel and conferences	8,053	89,722	(81,669)	(91.0)%
Education	58,150	39,431	18,719	47.5%
EDP supplies and equipment	42,786	98,094	(55,308)	(56.4)%
Office supplies	<u>19,653</u>	<u>43,550</u>	<u>(23,897)</u>	<u>(54.9)%</u>
	<u>927,981</u>	<u>1,181,175</u>	<u>(253,194)</u>	<u>(21.4)%</u>
Depreciation and amortization	<u>862,276</u>	<u>770,022</u>	<u>92,254</u>	<u>12.0%</u>
Total administrative expenses	<u>\$ 21,966,859</u>	<u>\$ 19,234,313</u>	<u>\$ 2,732,546</u>	<u>14.2%</u>

Note: 2020 information was restated for the adoption of GSB Statement No. 84.

State Universities Retirement System of the State of Illinois

Analysis of Administrative Expenses For the Year Ended June 30, 2021

Administrative expenses reflect all costs incurred to manage the day-to-day operations of the System. Detail costs relating to benefit and refunds paid to recipients and administrative costs relating to investment expenses have been separated from the Schedule of Administrative Expenses. The total administrative expenses of \$22 million are 0.7 percent of the total expenses of \$3.1 billion for fiscal year 2021. Fluctuations greater than \$50,000 and 20 percent were analyzed as follows:

Insurance and payroll taxes

Insurance and payroll taxes increased by \$927.3 thousand, or 34.8 percent. This is due to an increase in employer cost of insurance charged to the System by CMS.

Legal Services

Legal services increased by \$292.9 thousand, or 101.5 percent. Outside legal counsel was utilized significantly more in fiscal year 2021 to assist with various legal issues. There was also an increase in the hourly rate for fiduciary counsel.

Telephone

Telephone expenses increased by \$96.8 thousand, or 49.9 percent. Due to a delay in contract negotiations, a large invoice was paid in January 2019 and again in August 2021 so no similar expense was recorded in fiscal year 2020. Due to SURS staff working remotely, there were additional expenses for hotspots for some staff members.

Building operations and maintenance

Building operations and maintenance expenses decreased by \$106.3 thousand, or 40.1 percent. With SURS staff working remotely, there are very few staff members in the office. This caused a decrease in our monthly utility expenses.

Transportation and travel

Transportation and travel expenses decreased by \$81.7 thousand, or 91.0 percent. The decrease is due to COVID-19 causing staff to travel less in 2021 compared to 2020.

EDP supplies and equipment

EDP supplies and equipment expenses decreased by \$55.3 thousand, or 56.4 percent. The decrease is due to staff members working remotely and needing less equipment and supplies for the office.

**State Universities Retirement System
of the State of Illinois**
**Schedule of Changes in Property
For the Year Ended June 30, 2021**

	<u>Balance at June 30, 2020</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance at June 30, 2021</u>
Assets				
Land and land improvements	\$ 535,460	\$ 109,594	\$ —	\$ 645,054
Office building	12,190,143	969,682	—	13,159,825
Information system equipment and software	16,684,215	468,603	78,860	17,073,958
Furniture and fixtures	1,055,236	141,531	40,944	1,155,823
Construction in progress	<u>431,802</u>	<u>1,488,673</u>	<u>1,562,550</u>	<u>357,925</u>
Total capital assets	<u>30,896,856</u>	<u>3,178,083</u>	<u>1,682,354</u>	<u>32,392,585</u>
Allowance for Depreciation				
Land improvements	3,401	5,721	—	9,122
Office building	4,615,165	443,295	—	5,058,460
Information system equipment and software	15,151,554	349,134	29,494	15,471,194
Furniture and fixtures	<u>738,312</u>	<u>64,126</u>	<u>40,944</u>	<u>761,494</u>
Total allowance for depreciation	<u>20,508,432</u>	<u>862,276</u>	<u>70,438</u>	<u>21,300,270</u>
Net Capital Assets	<u>\$ 10,388,424</u>	<u>\$ 2,315,807</u>	<u>\$ 1,611,916</u>	<u>\$ 11,092,315</u>

Note: These balances were obtained from System records and have been reconciled to the System's quarterly *Agency Report of State Property* reports submitted to the Office of State Comptroller for the year ended June 30, 2021.

State Universities Retirement System of the State of Illinois

Schedule of Investment Portfolio

For the Years Ended June 30, 2021 and 2020

	2021			
	Cost		Fair Value	
	Amount	Percentage of Portfolio	Amount	Percentage of Portfolio
Equities				
Common stocks				
U.S. equities	\$ 4,408,970,913	24.3%	\$ 6,625,489,493	29.9%
Non-U.S. equities	4,546,277,341	25.1%	6,088,237,159	27.4%
Preferred stock	<u>1,100,167</u>	<u>0.0%</u>	<u>1,199,484</u>	<u>0.0%</u>
Total equities	<u>8,956,348,421</u>	<u>49.4%</u>	<u>12,714,926,136</u>	<u>57.3%</u>
Fixed Income				
Government obligations				
Government agencies	50,245,992	0.3%	49,596,655	0.2%
U.S. government	2,383,622,878	13.2%	2,485,487,874	11.2%
Corporate obligations	935,330,410	5.2%	973,469,754	4.4%
Miscellaneous				
Asset backed	113,998,490	0.6%	115,190,953	0.5%
Short-term investments*	100,818,383	0.6%	105,127,593	0.5%
Commingled funds	534,921,457	3.0%	521,457,164	2.3%
Mortgage backed	948,690,579	5.2%	953,127,545	4.3%
Municipal bonds	94,476,846	0.5%	94,820,842	0.4%
Non-U.S. bonds	815,355,018	4.5%	847,857,089	3.8%
Options	(102,279)	0.0%	(24,705)	0.0%
Swaps	<u>12,788,982</u>	<u>0.1%</u>	<u>12,481,950</u>	<u>0.1%</u>
Total fixed income	<u>5,990,146,756</u>	<u>33.2%</u>	<u>6,158,592,714</u>	<u>27.7%</u>
Cash and Cash Equivalents*	200,666,564	1.1%	200,666,563	0.9%
Real Estate	1,404,272,946	7.8%	1,561,399,983	7.0%
Diversifying Strategies	<u>1,532,639,948</u>	<u>8.5%</u>	<u>1,576,899,597</u>	<u>7.1%</u>
Total Investments	<u>\$18,084,074,635</u>	<u>100.0%</u>	<u>\$22,212,484,993</u>	<u>100.0%</u>

*Short-term investments does not include commercial paper and short term bills and notes with maturities less than 90 days. These securities are reported in Cash rather than in Investments.

State Universities Retirement System of the State of Illinois

Schedule of Investment Portfolio For the Years Ended June 30, 2021 and 2020

	2020			
	Cost		Fair Value	
	Amount	Percentage of Portfolio	Amount	Percentage of Portfolio
Equities				
Common stocks				
U.S. equities	\$ 5,196,788,428	31.3%	\$ 6,588,888,195	35.8%
Non-U.S. equities	1,950,874,870	11.8%	2,126,427,682	11.6%
Preferred stock	<u>1,118,307</u>	<u>0.0%</u>	<u>1,181,848</u>	<u>0.0%</u>
Total equities	<u>7,148,781,605</u>	<u>43.1%</u>	<u>8,716,497,725</u>	<u>47.4%</u>
Fixed Income				
Government obligations				
Government agencies	182,164,949	1.1%	183,570,200	1.0%
U.S. government	1,839,625,424	11.1%	2,021,241,014	10.9%
Corporate obligations	975,203,003	5.9%	991,351,747	5.4%
Miscellaneous				
Asset backed	131,504,575	0.8%	130,030,797	0.7%
Short-term investments*	112,851,670	0.7%	85,397,449	0.5%
Commingled funds	510,739,991	3.1%	468,936,428	2.6%
Mortgage backed	697,721,996	4.2%	714,572,038	3.9%
Municipal bonds	47,858,252	0.3%	48,433,746	0.3%
Non-U.S. bonds	757,620,864	4.6%	741,401,512	4.0%
Options	(61,132)	0.0%	(49,715)	0.0%
Swaps	<u>5,772,350</u>	<u>0.0%</u>	<u>2,169,022</u>	<u>0.0%</u>
Total fixed income	<u>5,261,001,942</u>	<u>31.8%</u>	<u>5,387,054,238</u>	<u>29.3%</u>
Cash and Cash Equivalents*	120,323,178	0.7%	120,323,178	0.7%
Real Estate	1,083,175,847	6.5%	1,132,349,076	6.2%
Hedge Funds	2,887,548,474	17.4%	2,910,196,814	15.8%
Commodities	<u>82,500,000</u>	<u>0.5%</u>	<u>118,500,269</u>	<u>0.6%</u>
Total Investments	<u>\$16,583,331,046</u>	<u>100.0%</u>	<u>\$18,384,921,300</u>	<u>100.0%</u>

*Short-term investments does not include commercial paper and short term bills and notes with maturities less than 90 days. These securities are reported in Cash rather than in Investments.

Note 1: 2020 information was restated for the adoption of GASB Statement No. 84.

Note 2: A complete list of the portfolio holdings is available upon request.

State Universities Retirement System of the State of Illinois

Schedule of Investment Expenses

For the Years Ended June 30, 2021 and 2020

	2021	2020
Investment Manager		
Adams Street Partners	\$ 5,182,820	\$ 6,338,526
Alinda Capital Partners	84,385	117,227
AQR Capital Management	263,145	722,613
Aksia TorreyCove Partners	786,250	572,917
Ariel Investments	697,160	—
Aspect Capital	1,009,828	367,890
Ativo Capital Management	743,499	762,789
Basis Investment Group	447,534	451,234
Bivium Capital Partners	1,978,970	443,081
BlackRock Institutional Trust Company	9,482,913	1,447,923
Blackstone Property Partners	3,222,138	1,584,065
Blue Vista Capital Management	426,745	464,827
Brookfield Asset Management	856,117	941,147
Cabot Properties	673,387	—
Campbell & Company	887,818	271,242
Carlyle Property Partners	973,456	956,202
CastleArk Management	—	363,171
Channing Capital Management	572,867	465,232
Credit Suisse Asset Management	471,204	105,139
Colchester Global Investors	761,531	734,302
Crow Holdings	460,998	589,784
Denali Advisors	—	232,140
Dune Capital Management	1,728,077	2,068,218
EARNEST Partners	1,104,242	1,473,724
Fairview Capital Partners	377,418	375,000
Fidelity Institutional Asset Management	—	369,511
Franklin Templeton Real Estate Advisors	475,366	442,583
Garcia Hamilton & Associates	515,408	500,968
Gladius Capital Management	1,096,169	1,351,470
GlobeFlex Capital	647,236	987,423
GQG Partners	954,879	—
Heitman Capital Management	1,620,983	1,641,575
Homestead Capital	1,735,338	—
Invesco	—	477,882
JP Morgan Asset Management	1,962,319	1,977,271
KKR Prisma	—	88,829
LM Capital Group	452,352	417,886
Lombard Odier Asset Management	750,309	242,920
LongTail Alpha	948,833	190,437
Long Wharf RE Partners	598,765	643,974
Longpoint Realty Partners	610,822	—
Macquarie Capital	1,250,975	1,448,825
Matarin Capital Management	440,557	610,750
Meketa Investment Group	208,669	—
Mesirow Financial Investment Management	1,207,918	838,743

State Universities Retirement System of the State of Illinois

Schedule of Investment Expenses

For the Years Ended June 30, 2021 and 2020

	2021	2020
Mondrian Investment Partners	\$ 1,153,185	\$ 1,395,156
Muller and Monroe Asset Management	650,000	821,196
Neuberger Berman	4,117,789	3,360,483
Northern Trust Asset Management	801,475	619,865
Oaktree Capital Management	208,291	207,363
Pacific Alternative Asset Management Company	69,075	281,133
Pacific Investment Management Company	7,008,750	5,125,616
Pantheon Ventures	2,881,578	3,319,004
Parametric Clifton	295,240	384,390
Piedmont Investment Advisors	—	573,788
Progress Investment Management Company	—	2,002,484
Prologis	543,921	—
Prudential Fixed Income	1,190,628	1,339,683
Pugh Capital Management	450,571	415,677
Ramirez Asset Management	377,206	245,032
RhumbLine Advisers	238,471	189,704
Smith Graham & Company	—	25,999
State Street Global Advisors	—	12,410
StepStone Real Estate	176,440	207,487
Strategic Global Advisors	1,508,614	1,067,276
T. Rowe Price	2,723,181	3,378,284
TCW Metropolitan West Asset Management	—	135,719
UBS Realty Investors	565,202	427,255
Versor Investments	1,044,943	329,312
Wellington Management Company	4,015,924	3,230,093
Westbrook Partners	556,335	—
Xponance	2,351,160	753,326
	81,597,379	63,927,175
Master Trustee & Custodian		
The Northern Trust Company	1,075,000	1,075,000
Investment Consultant, Measurement & Counsel		
Aksia TorreyCove Partners	81,464	277,846
Callan LLC	313,000	305,250
Faegre Drinker Biddle & Realth	46,419	25,427
Foley & Lardner LLP	372,885	—
Ice Miller, LLP	55,239	141,743
K&L Gates	81,423	56,280
Mayer Brown, LLP	1,060	3,445
Meketa Investment Group	571,802	496,333
Morgan, Lewis & Bockius LLP	675	33,395
Squire Patton Boggs	40,551	20,012
Teachers Retirement System of the State of Illinois	5,603	—
Total Consultant, Measurement & Counsel fees	1,570,121	1,359,731

State Universities Retirement System of the State of Illinois

Schedule of Investment Expenses For the Years Ended June 30, 2021 and 2020

	2021	2020
Investment Administrative Expenses		
Personnel	\$ 1,645,324	\$ 1,472,597
Resources and travel	144,294	65,732
Performance measurement and database	<u>130,669</u>	<u>66,955</u>
	<u>1,920,287</u>	<u>1,605,284</u>
 Total Investment Expenses	 <u>\$ 86,162,787</u>	 <u>\$ 67,967,190</u>

Investment expenses include fees paid to the System's master trustee, various investment managers and their investment consultant and investment brokerage firms. Fees are negotiated based primarily on market values and the manager's portfolio performance. A graduated scale is used for most managers based upon various increments per million dollars of market value. Investment expenses also include administrative expenses relating to the operation of the Investment Division of the System.

**State Universities Retirement System
of the State of Illinois**
Selected Account Balances
For the Years Ended June 30, 2021 and 2020

	Defined Benefit Plan	Other Employee Benefit Plan	Custodial Funds	Totals	
				2021	2020
Assets					
Cash and short-term investments	\$ 1,709,596,995	\$ 10,702,877	\$ 3,491,157	\$ 1,723,791,029	\$ 1,266,766,677
Receivables					
Members	10,614,296	—	2,724,483	13,338,779	15,718,356
Non-employer contributing entity	—	—	—	—	118,964,304
Federal, trust funds, and other	7,179,061	5,879	92,134	7,277,074	6,716,268
Pending investment sales	78,168,602	489,837	42,254	78,700,693	1,952,064,461
Interest and dividends	<u>59,913,180</u>	<u>375,441</u>	<u>32,386</u>	<u>60,321,007</u>	<u>47,440,102</u>
Total receivables	<u>155,875,139</u>	<u>871,157</u>	<u>2,891,257</u>	<u>159,637,553</u>	<u>2,140,903,491</u>
Prepaid expenses	<u>140,576</u>	<u>—</u>	<u>—</u>	<u>140,576</u>	<u>133,923</u>
Investments, at fair value					
Equity investments	9,997,064,955	62,645,771	5,403,954	10,065,114,680	6,732,741,142
Fixed income investments	6,316,264,651	39,580,344	3,414,282	6,359,259,277	5,507,377,416
Real estate investments	1,550,843,437	9,718,231	838,315	1,561,399,983	1,132,349,076
Alternative investments	<u>4,198,134,475</u>	<u>26,307,259</u>	<u>2,269,319</u>	<u>4,226,711,053</u>	<u>5,012,453,666</u>
Total investments	<u>22,062,307,518</u>	<u>138,251,605</u>	<u>11,925,870</u>	<u>22,212,484,993</u>	<u>18,384,921,300</u>
Securities lending collateral	<u>2,128,804,290</u>	<u>13,339,974</u>	<u>1,150,734</u>	<u>2,143,294,998</u>	<u>1,381,940,165</u>
Capital assets, at cost, net of accumulated depreciation of \$21,300,270 and \$20,508,432, respectively	<u>11,092,315</u>	<u>—</u>	<u>—</u>	<u>11,092,315</u>	<u>10,388,424</u>
Total assets	<u>26,067,816,833</u>	<u>163,165,613</u>	<u>19,459,018</u>	<u>26,250,441,464</u>	<u>23,185,053,980</u>
Liabilities					
Benefits payable	17,463,444	405,274	—	17,868,718	12,718,437
Refunds payable	5,318,074	—	—	5,318,074	3,601,916
Securities lending collateral	2,128,207,416	13,336,234	1,150,411	2,142,694,061	1,381,486,080
Payable to brokers for unsettled trades	127,159,288	796,833	68,736	128,024,857	2,013,885,643
Reverse repurchase agreements	619,964	3,885	335	624,184	512,000
Investment expenses payable	14,918,233	93,484	8,064	15,019,781	8,041,750
Administrative expenses payable	5,817,154	—	223,891	6,041,045	9,403,540
Contributions due to third-party administrator	<u>—</u>	<u>—</u>	<u>5,160,631</u>	<u>5,160,631</u>	<u>6,659,232</u>
Total liabilities	<u>2,299,503,573</u>	<u>14,635,710</u>	<u>6,612,068</u>	<u>2,320,751,351</u>	<u>3,436,308,598</u>
Fiduciary Net Position	<u>\$ 23,768,313,260</u>	<u>\$ 148,529,903</u>	<u>\$ 12,846,950</u>	<u>\$ 23,929,690,113</u>	<u>\$ 19,748,745,382</u>

Note: 2020 information was restated for the adoption of GASB Statement No. 84.

State Universities Retirement System of the State of Illinois

For the Years Ended June 30, 2021 and 2020

Rate of Return

Performance of SURS investment portfolio resulted in a market rate of return, net of investment management fees, of 23.8 percent and 2.6 percent for fiscal years 2021 and 2020, respectively.

Revenues and Expenses

SURS is funded through contributions from non-employer, employer, and employee contributions as well as investment earnings. All cash received from these sources is deposited with the Northern Trust Company, which acts as the System's Master Trustee and Custodian.

Approximately 93.5 percent of the total expenses for fiscal year 2021 and 2020 are related to benefits and refunds to members. Benefits include retirement, disability, and survivor payments. Details of benefit recipients, benefit expenses, and summaries of new benefit payments and of average benefit payments can be found in the SURS Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2021.

Employer Contributions

Contributions received from federal grants, trust funds, and other such sources were \$62.3 million and \$67.3 million for the periods ending June 30, 2020 and 2021, respectively. The amount varies from year to year, depending on the level of federal and grant funding obtained by the universities and community colleges, as well as the normal cost rate established by the actuary.

Investment Income

Investment income increased from \$614.0 million in fiscal year 2020 to \$4.9 billion in fiscal year 2021. The System's investment returns for these years were 2.6 percent and 23.8 percent, respectively, net of fees. In general, the System's investment strategy has been to maintain the investment allocation as stated by the Board of Trustees. The portfolio policy allocation as of June 30, 2021 consists of 41.0 percent global public equity, 14.0 percent credit fixed income, 5.0 percent core real assets, 6.0 percent options strategies, 7.5 percent private equity, 2.5 percent non-core real assets, 6.0 percent treasury inflation protected securities, 8.0 percent core fixed income, 3.5 percent systematic trend following, 3.0 percent alternative risk premia, and 3.5 percent long duration. A more detailed explanation of the System's investment portfolio and performance can be obtained from the 2021 ACFR.

State Universities Retirement System of the State of Illinois

For the Years Ended June 30, 2021 and 2020

Member Contributions

Employee contributions are established by the Illinois Pension Code as 8 percent of earnings for both the defined benefit and Retirement Savings Plan. Police officers and fire fighters contribute 9.5 percent of earnings for the defined benefit plan and 8 percent for the Retirement Savings Plan. Employee contributions are collected through payroll deductions and are submitted by the participating employers directly to the System for credit to each participant's accumulated contributions account for those in the defined benefit plan, or to be transmitted daily to the Service Provider for the members in the Retirement Savings Plan. The number of members having contributions credited to their accounts at June 30, 2021 and 2020 are as follows:

	2021	2020
Current Members – Defined Benefit Plan		
Active members (currently contributing)	60,397	63,206
Inactive members (not currently contributing)	86,135	83,744
Total Current Members – Defined Benefit Plan	146,532	146,950
Current Members – Retirement Savings Plan		
Active members (currently contributing)	13,046	13,129
Inactive members (not currently contributing)	10,618	10,280
Total	23,664	23,409

Member payrolls totaled \$3.64 billion for the fiscal years ended June 30, 2020 and 2021.

Future Funding and Benefit Calculations

Public Act 88-0593 was signed into law by Governor Edgar on August 22, 1994. This Act, which took effect on July 1, 1995, provides for a 15-year phase-in to a 35-year plan that requires the State to make continuing appropriations to meet the normal actuarially determined cost of the System, plus amortize the unfunded liability. A significant difference between the 1989 and 1994 funding legislation is that the latter takes the form of a continuing appropriation. This legislative change removes the pension funding from the General Assembly's annual budget negotiations and requires that the actuarially determined annual funding become an automatic contribution. Ultimately, this funding plan will increase the State's pension funding from its current level of 43.9 percent to 90 percent by fiscal year 2045.

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Functions and Planning

The State Universities Retirement System (System) is the administrator of a cost-sharing, multiple-employer defined benefit and two multiple-employer defined contribution plans. SURS was established on July 21, 1941 to provide retirement annuities and other benefits for employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. The System is included in the State of Illinois' financial reports as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the Illinois Compiled Statutes. These statutes assign the authority to establish and amend the benefit provisions of the Plan to the State Legislature. Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System. It is also these statutes that define the scope of SURS reporting entity. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the State shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.

As of June 30, 2021, the System's defined benefit plan had 146,532 active and inactive participants and 70,111 annuity benefit recipients, while the Retirement Savings Plan had 23,664 active and inactive participants and 1,168 annuity benefit recipients. The Deferred Compensation Plan had 287 participants.

As of June 30, 2021, management of the System is vested in an eleven-member Board of Trustees; five of which are appointed by the Governor, and six of which are elected members of whom four are active-elected members and two are annuitant-elected members. The term of office of a trustee is six years.

The administration of the detailed affairs of the System is vested in the Executive Director. General policy relating to the administration of the System is stated in the minutes of the Board meetings. The System's official office is located at 1901 Fox Drive, Champaign, Illinois.

Program planning activities of the System are under the direct supervision of the Executive Director and involve coordination between the governing Board and other administrative staff of the System. Periodic status reviews are performed by the Executive Director and her administrative staff to determine the progress made toward accomplishing established goals and objectives.

Major Initiatives

Despite working through a trying pandemic in fiscal year 2021, SURS staff continued to deliver outstanding, uninterrupted service and benefits to our members. In addition, staff continued to work on several major projects and withstood several administrative changes.

- The following changes occurred to SURS Board of Trustees in fiscal year 2021.
 - Trustee elections were conducted April 1st-May 3rd.

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- Current board members Mitchell Vogel and J. Fred Giertz were elected by the System’s annuitants to continue serving on the board. Both terms began July 15, 2021.
- There were two elected active-member seats open on the board starting in July. Andriy Bodnaruk and Scott Weisbenner were the only candidates to return petitions with the necessary signatures to qualify for the seats. For that reason, it was not necessary to hold an active-member trustee election. Their six-year terms began on July 15, 2021.
- On Sept. 1, 2020, we launched the redesigned SMP, renamed the SURS Retirement Savings Plan (RSP) through our new recordkeeper Voya Financial. The launch included the addition of the SURS Lifetime Income Strategy, an in-plan income solution.
- The new SURS Deferred Compensation Plan (DCP) was rolled out in 2021. The 457(b) plan will provide an additional savings option for active members.
- SURS is in the early stages of implementing a new pension administration software system for managing pension benefits. We have selected Vitech Corporation to work with us on this long-term project which is slated to last the next four to five years.
- We redesigned our website to improve usability and to optimize mobile device usage.

System Funding Progress

The actuarial accrued liability of SURS at June 30, 2021 amounted to \$48.9 billion. The actuarial value of assets is \$21.5 billion, resulting in an unfunded liability of \$27.4 billion.

The actuarial value of assets is used to evaluate funding progress and to set future employer contributions. The actuarial value of assets is based on a smoothed investment income rate. Investment income in excess or shortfall of the expected 6.75 percent rate on fair value is smoothed over a five-year period with 20 percent of a year’s excess or shortfall being recognized each year beginning with the current year. The use of this actuarial method was implemented as required by Public Act 96-0043, which was signed into law on July 15, 2009.

The projected required contribution rates and amounts are as follows:

Fiscal Year	Percentage of Payroll	Assumed Payroll (in billions)	Required Contribution (in millions)
2023	43.3%	\$ 4.99	\$ 2,160.9
2024	42.8%	5.10	2,182.6
2025	41.8%	5.21	2,179.5
2026	40.9%	5.33	2,176.9
2027	39.7%	5.45	2,165.9

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Actuarial Assumptions

The experience review for the years June 30, 2017 to June 30, 2020 was completed June 2021, and the assumptions adopted as of June 30, 2021. Public Act 96-0889 caps Tier 2 members' earnings at \$116,740 in 2021 and future cost of living adjustments at the lesser of 3 percent or 0.5 percent of the change in the Consumer Price Index. This modification of Tier 2 members' earnings decreases the anticipated amount of future payroll and contributions. The actuarial assumptions and methods used are in accordance with actuarial standards and are set by the Board.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of SURS when due and to achieve an asset value equal to 90 percent of the Actuarial Accrued Liability by the end of fiscal year 2045. The financing objective of SURS and the funding process to reach that objective are set out in Section 15-155 of the SURS Article of the Illinois Pension Code.

The statutory funding policy set out in Section 15-155 of the Illinois Pension Code results in lower near-term contribution requirements than the Actuarially Determined Contribution (ADC). The actuary and SURS recommend funding the ADC. In addition, the actuary does not certify that the funding method in the statute complies with generally accepted actuarial standards for the funding of retirement systems.

The statutory funding policy of this plan does not follow the actuary's recommendation. Continually funding the plan below the ADC creates the risk that ultimately benefit obligations cannot be met from the trust and will require a greater amount of funding from other state resources.

The funded status of the plan as of June 30, 2021, the most recent valuation date, is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Liability (AAL) – Projected Unit Credit	Funded Ratio	Unfunded Actuarial Liability (UAAL)	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
6/30/21	\$ 21,484.8	\$ 48,898.4	43.9%	\$ 27,413.6	\$ 3,638.2	753.5%

*If calculated using the market value of assets of \$23,768.3, the funding ratio would be 48.6 percent.

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Locally Held Funds

The System uses a locally held fund, “State Universities Retirement System” (pension trust fund No. 1178), held at the Northern Trust Company in Chicago, Illinois to account for and process all transactions of the System. The Illinois State Treasurer is not the legal custodian of the System’s assets.

Average Number of System Employees

The average number of SURS employees for the last two fiscal years are as follows:

	<u>2021</u>	<u>2020</u>
Administration and human resources	15	14
Investments and accounting	18	17
Member services	88	82
Support services and information systems	38	41
Retirement savings plan and deferred compensation plan	<u>3</u>	<u>3</u>
Total	<u>162</u>	<u>157</u>

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Schedule of Investment Commissions For the Years Ended June 30, 2021 and 2020

	2021	2020
Domestic		
Loop Capital Markets	\$ 40,402	\$ 106,533
Sturdivant and Company	29,317	32,413
Siebert Brandford Shank & Company	23,975	21,259
Pavilion Global Markets	17,783	—
Williams Capital Group	13,963	22,208
Barclays	12,490	39,938
Oppenheimer & Company	7,804	—
Capital Institutional Services, Inc (CAPIS)	6,247	—
Cabrera Capital Markets	6,088	22,911
Wells Fargo Advisors	5,786	—
Goldman Sachs	—	60,679
Penserra Securities	—	50,361
Robert W. Baird & Company	—	21,746
Stifel, Nicolaus & Company	—	20,061
All Others	<u>66,052</u>	<u>259,328</u>
Total Domestic Commissions	<u>229,907</u>	<u>657,437</u>
International		
Penserra Securities	122,146	79,591
Loop Capital Markets	86,007	171,618
Citigroup Global Markets	50,129	—
Jefferies & Company	39,396	—
Mischler Financial Group	31,896	—
North South Capital	30,222	144,929
Percival Financial Partners	29,236	—
Weeden & Company	28,441	—
Credit Suisse	26,656	84,566
CLSA	26,570	—
UBS	—	195,351
Instinet	—	120,395
Fig Group LLC	—	118,804
ITG (Investment Technology Group)	—	61,737
Morgan Stanley	—	59,668
Macquarie Securities	—	57,138
All Others	<u>175,962</u>	<u>406,200</u>
Total International Commissions	<u>646,661</u>	<u>1,499,997</u>

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Schedule of Investment Commissions (Continued) For the Years Ended June 30, 2021 and 2020

	2021	2020
Global		
Morgan Stanley	\$ 82,479	\$ 41,151
JP Morgan Chase & Company	45,863	72,803
Loop Capital Markets	44,428	—
Stanford C. Bernstein	42,849	41,083
Goldman Sachs	41,441	40,087
Jefferies & Company	40,363	36,471
UBS	38,386	41,362
Mischler Financial Group	37,215	—
Bank of America Securities	30,580	34,134
Credit Suisse	29,459	54,443
Cabrera Capital Markets	—	32,241
Instinet	—	26,592
All Others	<u>465,326</u>	<u>363,694</u>
Total Global Commissions	<u>898,388</u>	<u>784,061</u>
Total Commissions	<u>\$ 1,774,956</u>	<u>\$ 2,941,495</u>
Fixed Income		
Williams Capital Group	\$ 1,244,742,183	\$ 1,212,171,584
Loop Capital Markets	525,485,633	644,226,403
JP Morgan Chase & Company	436,427,762	699,206,511
Cabrera Capital Markets	335,114,865	723,301,741
Goldman Sachs	323,672,649	743,365,166
Citigroup Global Markets	300,534,224	600,270,550
Morgan Stanley	275,089,222	410,162,689
Bank of America	249,855,324	449,743,563
Wells Fargo Advisors	233,902,728	447,049,238
Mischler Financial Group	155,300,526	—
Barclays	—	286,563,139
All Others	<u>2,290,867,813</u>	<u>3,259,366,616</u>
Total Fixed Income Market Value Traded	<u>6,370,992,929</u>	<u>9,475,427,200</u>
Total Market Value Traded	<u>\$ 6,370,992,929</u>	<u>\$ 9,475,427,200</u>

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Description of Reserves

Participants' Contributions

This reserve accumulates the contributions made by participants plus earned interest. Under the traditional option, participants contribute 8 percent of their gross earnings; 6.5 percent of the 8 percent contributions are designated for retirement annuities, 0.5 percent for automatic annual increases, and 1 percent for survivor benefits. Police officers and firefighters contribute 9.5 percent of earnings; the additional 1.5 percent is a normal retirement contribution. Under the portable option, the participants contribute the same percent of earnings as above, but there is no contribution for survivor benefits. Instead, 1 percent of earnings is contributed to fund an enhanced refund which allows for the distribution of member earnings, all interest earned, and a one-to-one match of employer contributions. The refund available under the traditional option is member contributions plus interest at 4.5 percent.

Interest is credited annually to the participants' accounts based on the balance at the beginning of the academic year. The credited interest rate is determined by the Board of Trustees and was 6.0 percent for the year ended June 30, 2021. Upon retirement or death, the participants' accumulated contributions are transferred to the appropriate reserve accounts for payment of benefits.

Benefits from Employee and Employer Contributions

This reserve accumulates employer contributions from State Appropriations and federal and trust funds with designated uses of paying retirement and reversionary annuities for benefits in force, death and survivor benefits, disability benefits, variations in actuarial experience, and the administrative costs of the System. The reserve also accumulates participant contributions transferred when the participant retires or dies: the amount of investment income earned but not yet distributed to the participant contribution reserve according to the effective interest rate. The final component of this reserve is the difference between the total net assets of the System and the actuarial requirement to fund the System's benefits. The amount presented in this report is computed using a unit credit actuarial method. Illinois statutes provide that any potential unfunded liability be an obligation of the State of Illinois. The System must annually have an actuarial determination of its liabilities and reserves, and the amount and distribution of the required employer contribution.

Retirement Savings Plan

SURS is the plan sponsor and administrator of a defined contribution plan called the SURS Retirement Savings Plan (RSP). The RSP was established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Public Act 90-0448. The plan was originally called the Self-Managed Plan (SMP). The name change to Retirement Savings Plan was effective September 1, 2020, at the conclusion of an extensive plan redesign. The RSP is offered to employees of all SURS employers who elect to participate. This plan is a qualified

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money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the RSP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

Deferred Compensation Plan

Public Act 100-769, effective August 10, 2018, required SURS to introduce an optional supplemental defined contribution plan. This optional defined contribution plan is known as the SURS Deferred Compensation Plan (DCP) and began accepting contributions on March 1, 2021. This plan is a governmental deferred compensation plan under Section 457(b) of the Internal Revenue Code. Participation in the plan by SURS members is voluntary, though all SURS employers are required to adopt the plan by September 1, 2021. The assets of the DCP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

Schedule of Accounts Receivable

	2021	2020
Employees:		
Salary deductions (1)	\$ 10,466,457	\$ 12,629,708
Overpaid benefits (2)	<u>2,872,322</u>	<u>3,088,648</u>
Total employees receivables	<u>13,338,779</u>	<u>15,718,356</u>
Employers:		
State appropriation receivable (3)	-	118,964,304
Federal, trust funds, and other (4)	6,887,428	6,386,638
RSP forfeiture receivable (5)	<u>389,646</u>	<u>329,630</u>
	<u>7,277,074</u>	<u>125,680,572</u>
Total	<u>\$ 20,615,853</u>	<u>\$ 141,398,928</u>

- (1) Salary deductions receivable decreased by approximately \$2.2 million or 17.1 percent from fiscal year 2020. These salary deductions are remitted by the employers after each pay period. Most employers pay on a bi-weekly basis, so the size of the final pay periods which must be accrued varies each year.
- (2) Overpaid benefits receivable represent benefits which have been overpaid to a member and are due back to the System. The majority of this receivable relates to disability payments made to members who later received worker's compensation benefits. Thus, some of the disability benefits received from the System must be repaid. The System records the receivable as soon as they are notified by the employer of the worker's compensation payment. If the member does not repay the overpayment prior to retirement or withdrawing from the System, the

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refund or retirement annuity is reduced by the amount of the overpayment plus interest. Because of this, an aging of the accounts receivable is not available and an allowance for doubtful accounts is not necessary. All other receivable amounts are expected to be collected within one year or less.

- (3) The full amount of state appropriation payments due for fiscal year 2021 were received by the end of June 2021.
- (4) The contributions related to federal, trust and other funds are remitted by the employers with the same procedures used for remittance of the employee contributions. In addition, the timing in which the RSP contributions are remitted on to the providers can result in temporary receivables which vary from year to year based on the status of the transfers at year end.
- (5) This receivable represents member account forfeitures of the employer matching funds due back to the System from the RSP providers. These forfeitures are the employer contributions for members who were not vested at the time of termination. Each month the providers remit back to SURS the forfeitures from the prior month, where they are held as an asset of the RSP to be offset against future employer contributions.

Retirement Benefits-Defined Benefit Plan

Benefits have increased from \$2.46 billion to \$2.55 billion for the periods ended June 30, 2020 and 2021, respectively, for an increase of \$90.4 million or 3.7 percent. Approximately 1.4 percent is due to an increase in the number of defined benefit plan recipients from 59,060 to 59,872, and 2.3 percent is due to an increase in the average benefit payment.

Survivors' Benefits-Defined Benefit Plan

Benefits have increased from \$185.4 million to \$198.7 million for the periods ending June 30, 2020 and 2021, respectively. This increase of \$13.2 million or 7.1 percent is due to a 1.9 percent increase in the number of recipients, and an increase in the average monthly benefit of 5.2 percent reflecting the 3 percent automatic annual increase and higher average annuity payments related to higher ending salary rates for the deceased member.

Disability Benefits-Defined Benefit Plan

Benefits increased from \$16.9 million to \$17.4 million for the periods ending June 30, 2020 and 2021, respectively. This increase of \$0.5 million or 3 percent represents a decrease of 6.7 percent in the number of recipients and a 9.8 percent increase in average benefits paid, which are dependent upon the level of earnings of the disabled member.

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Disability Retirement Allowance Benefits

Benefits increased from \$3.967 million to \$4.018 million for the periods ended June 30, 2020 and 2021, respectively. This is an increase of \$51.0 thousand or 1.3 percent. There was a decrease of 2.4 percent in the number of recipients and an increase of 3.8 percent in the average monthly benefit, from \$889 to \$992.

Benefit Costs

The System's costs to recipients include retirement, disability, survivors, and death benefits. The following is the benefit cost per monthly annuity recipient for the years ended June 30, 2021 and 2020.

Average Monthly Benefit Cost per Recipient-Defined Benefit Plan

	Number	Amount Paid (in millions)	Average Monthly Benefit
<u>Retirement</u>			
2021	59,872	\$ 2,547.0	\$ 3,545.03
2020	59,060	\$ 2,456.5	\$ 3,466.16
<u>Survivors</u>			
2021	9,332	\$ 198.7	\$ 1,773.99
2020	9,157	\$ 185.4	\$ 1,687.35
<u>Disabilities</u>			
2021	544	\$ 17.4	\$ 2,660.18
2020	583	\$ 16.9	\$ 2,422.52
<u>Disability Retirement Allowance</u>			
2021	363	\$ 4.0	\$ 922.39
2020	372	\$ 4.0	\$ 888.68

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Schedule of Changes in Reserves

	<u>Defined Benefit Plan</u>				<u>Total</u>
	<u>Participant's Contribution</u>	<u>Benefits from Employer and Employer Contributions</u>	<u>Other Employee Benefit Plan</u>	<u>Custodial Funds</u>	
Balance, June 30, 2020	\$ <u>6,650,950,105</u>	\$ <u>12,966,065,501</u>	\$ <u>119,479,653</u>	\$ <u>12,250,123</u>	\$ <u>19,748,745,382</u>
Revenue:					
Contributions	288,476,321	1,978,743,433	2,905,014	179,935,223	2,450,059,991
Investment income	—	390,425,391	2,352,034	146,482	392,923,907
Net appreciation in fair value of investments	—	<u>4,458,726,101</u>	<u>26,678,181</u>	<u>1,661,486</u>	<u>4,487,065,768</u>
Total increases	<u>288,476,321</u>	<u>6,827,894,925</u>	<u>31,935,229</u>	<u>181,743,191</u>	<u>7,330,049,666</u>
Expenses:					
Benefit payments	—	(2,780,374,481)	(2,365,794)	—	(2,782,740,275)
Refunds	(79,128,037)	—	—	—	(79,128,037)
Administrative and investment expenses	—	(105,571,074)	—	(3,129,211)	(108,700,285)
Contributions sent to third-party administrator	—	—	—	(178,536,338)	(178,536,338)
Interest credit to reserves, net of forfeits	394,749,285	(394,749,285)	—	—	—
Transfers	<u>(411,925,070)</u>	<u>411,925,070</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total decreases	<u>(96,303,822)</u>	<u>(2,868,769,770)</u>	<u>(2,365,794)</u>	<u>(181,665,549)</u>	<u>(3,149,104,935)</u>
Net increase	<u>192,172,499</u>	<u>3,959,125,155</u>	<u>29,569,435</u>	<u>77,642</u>	<u>4,180,944,731</u>
Balance, June 30, 2021	\$ <u>6,843,122,604</u>	\$ <u>16,925,190,656</u>	\$ <u>149,049,088</u>	\$ <u>12,327,765</u>	\$ <u>23,929,690,113</u>

Note: 2020 information was restated for the adoption of GASB Statement No. 84.

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Schedule of Contributions/Deductions and Effect on Investments

Below is a schedule of contributions received by the System's defined benefit plan, expenditures for benefits and operations and the effect of these transactions on the System's investments.

	2021	2020
Contributions		
Members/participants	\$ 288,476,321	\$ 282,367,290
State of Illinois	1,921,742,123	1,785,817,785
Federal/trust and other sources	<u>57,001,310</u>	<u>52,968,295</u>
Total contributions	<u>2,267,219,754</u>	<u>2,121,153,370</u>
Deductions		
Benefits:		
Retirement, reversionary and beneficiary benefits	2,546,976,713	2,456,538,261
Survivor benefits	198,658,752	185,412,944
Disability and DRA benefits	21,383,572	20,915,042
Lump-sum death benefits	3,898,722	4,357,549
Portable lump-sum retirement benefit	9,456,722	8,968,907
Refunds:		
Survivor insurance refunds	7,065,656	8,726,640
Refund due to active participant death	20,754,984	16,020,905
Portable lump sum withdrawal	13,606,834	6,476,137
Withdrawals	37,700,563	37,777,832
Administrative expenses	<u>19,389,167</u>	<u>18,469,275</u>
Total deductions	<u>2,878,891,685</u>	<u>2,763,663,492</u>
Contributions Available to Invest (Investments Used to Pay Benefits and Expenses)	<u>\$ (611,671,931)</u>	<u>\$ (642,510,122)</u>

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Selected Activity Measures and Service Efforts and Accomplishments

	2021	2020
Total office counseling visits		
Defined benefit	4,447	4,423
Retirement Savings Plan	884	454
Total telephone calls		
Defined benefit	117,180	104,052
Retirement Savings Plan	8,500	4,176
Benefit Payments:		
Number of refunds	2,865	3,460
Number of benefit claims processed	4,066	4,610
Information Collection:		
Employer payrolls processed	1,862	1,900